

Teradata Value Analyzer

Applications > Profitability Analytics

A Behavioral-Based Approach to Profitability Measurement



Understanding profitability is fundamental to the growth of any business. But all too often, companies fail to accurately assess what is driving the profit, or lack of profit, of their customers, products, services, or channels. That's because, traditionally, businesses have based their profitability calculations on averages and assumptions derived from the financial systems of record, particularly general ledgers.

Unfortunately, this limited value measurement creates a summary picture of revenues and expenses that can grossly misstate profitability across dimensions. Why? Because it's a value measurement built on a cornerstone of aggregated information, a measurement that leads to misguided business decisions. You simply can't make sound, strategic decisions

around targeted marketing, sales and service alignment, and pricing if you are basing them on inaccurate premises. The results can erode your profit. What if, for example, you discover that 75% of your customer population has been classified into the wrong profitability decile?

To answer that question, you must first understand the dynamics behind customer profitability and the true drivers of profit and loss. Your financial statements may provide a summary of revenue, cost, and expenses, but how do you bridge the gap between the summary and the

individual customer? Not by using averages and assumptions. But by considering individual behavior – everything from transactional frequency to channels used. It's behavior that ultimately impacts profitability – and your bottom line.

Detailed Flow of Revenue and Expense

To help bring behavior into your profitability measurements, Teradata, a division of NCR, developed a dynamic solution called Teradata Value Analyzer. It's a solution that addresses the converging demands of two distinct facets of your organization: financial management's need for organizational profitability and

Business Area	Specific Benefits
Marketing	<ul style="list-style-type: none">> enhance high value customer base through appropriate services, products and relationships> increase wallet share with effective targeting of campaigns and customers> strengthen accuracy of segmentation methods
Product Management	<ul style="list-style-type: none">> combat competition through relevant products and relationship pricing> increase product bottom line performance> design cost-effective, customer-centric offers
Distribution	<ul style="list-style-type: none">> align investment in customer servicing and relationship management> access channel value, usage, and optimization> investment or disinvestment in channels
Finance	<ul style="list-style-type: none">> clarity of cost and expense drivers for improved cost management> performance assessment, process management and planning> risk-adjusted assessment of value
IT	<ul style="list-style-type: none">> improve the quality of information in the Teradata Warehouse> single, detailed view of profitability for the entire organization

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Teradata Value Analyzer

customer management's requirements for detailed, behavior-based profitability. We engineered Teradata Value Analyzer to provide the answers to key questions about why aspects of your enterprise are or are not profitable. It lets you identify individual differences between customers, products, and organization by looking at concerns such as: how revenue is generated, how costs are incurred, or the impact of a specific customer using a specific channel.

Teradata Value Analyzer establishes the foundation of a customer management strategy by precisely measuring profitability at a detailed level. Unlike traditional value measurement methods, Teradata Value Analyzer takes a "bottom-up" approach beginning with the transactions, events, and activities of the business. It provides you with consistent and accurate profit level analysis across a complete set of business functions and views.

You can use Teradata Value Analyzer to generate insight from profitability information to impact marketing, distribution, product, and risk management decisions. And, just as important, you can use the profitability data proactively as a powerful tool for building a better, more profitable business.

Total Account Analysis Factors	
Operational Revenue	All revenue streams relating to your business.
Net Interest Revenue	Represents all revenue accrued through your balance sheet activities.
Direct Expense	Represents costs that apply to customer behavior or events through various channels at various locations and times.
Indirect Expense	Relates to the costs of doing business that are not driven by transaction activity of customers, e.g. overhead expense.
Risk Provision	Reflects the analysis of an individual customer for risk, fraud, loss provisioning, and exposure management.
Capital	Reflects capital allocation down to the customer or account level. Useful in calculating shareholder value.

Every calculation cycle, Teradata Value Analyzer produces a P&L statement by profit object. It breaks down total profit into a number of "factors." These factors and the supporting detail enable the answer to the question, "Why is this object profitable or unprofitable?"

Teradata Value Analyzer allows you to define the object of measurement, also known as profit object. Using transactions, events, and activities, it compiles detailed Profit and Loss (P&L) statements that can include six critical components of a complete financial model: operational and interest revenue, direct and indirect expenses, risk, and capital provisions. When the calculation engine runs, Teradata Value Analyzer links the appropriate revenues and expenses to every transaction from the object of measurement. Once complete, this detailed information can be aggregated to the views required by the business including customer, product, and channel – across your entire organization.

The result? Information you can use to support an array of strategic and tactical decisions concerning:

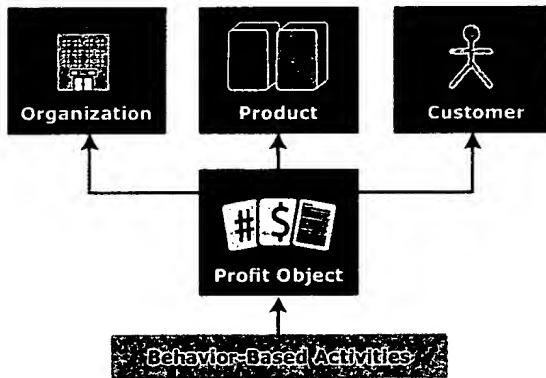
- > Channel migration initiatives
- > Relationship pricing
- > Targeting campaigns to the right customers
- > Cost management
- > Service levels
- > Structuring of products and services
- > Identifying under-served customer segments
- > Customer management

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Profitability Measurement Model



This figure shows business views of profitability within a company. Unlike traditional value measurement methods, Teradata Value Analyzer takes a "bottom-up" approach beginning with the transactions, events, and activities of the business. By measuring profitability at a detailed level, it provides you with consistent and accurate profit level analysis across a complete set of business functions and views.

Converging Needs

Teradata Value Analyzer provides an important link between organizational profitability and detailed, behavior-based profitability. Modeling the relationships of the organization, it can capture expense and revenue flows among all entities. Supporting a flexible and complex modeling environment, Teradata Value Analyzer focuses on creating behavior-based profitability information and provides modeling support for costing and organizational profitability.

A Blend of Speed and Accuracy

We've built the Teradata Value Analyzer solution on the powerful Teradata Relational Database Management System, the foundation for maximum scalability. Teradata Value Analyzer completes all processes and calculations, and stores all data, right in the warehouse. Teradata Value Analyzer also delivers usable information with unmatched speed, despite the complexity of the profitability calculations and the vast amount of data processed. Once the calculations are complete, you can quickly understand the results and take action to improve profitability.

Of course, accuracy of data is just as vital as speed when it comes to making swift, sound business decisions. Working in a single integrated database, Teradata allows for an exhaustive review of all data, not just a sample that may offer misleading clues to profitability behavior.

Easy to Manage and Enhance

Teradata Value Analyzer is also adaptable, ready to accommodate change in your business, from cost updates to new products to expanded channels. It's a dynamic solution that you can use to define and support a roadmap for changes in your measurement practices.

A Graphical User Interface provides you with a link between your profitability measurement methodology and the data available to define and further enhance the scope and precision of your profitability model.

Rules based and data driven, Teradata Value Analyzer performs calculations based on user-defined rules. That means its rules and the resulting calculations are driven by the specifics of your data. What's more, you can customize Teradata Value Analyzer to fit your unique requirements without changing the application software.

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Put Your Profitability Intelligence to Work

Teradata can show you how to build a better business by converting a combination of your customer data and your business methodology into profitability intelligence.

That's because we've had a long and successful track record of helping companies – in industries ranging from retail, financial services and telecommunications to travel, transportation logistics and e-commerce – apply customer management techniques. And because we offer a spectrum of services customized to your business needs. Everything from consulting services and data mining to advanced analytics, education programs, and project management support. Our consulting services personnel are support specialists who focus exclusively on data warehousing and are available to you around the clock.

We understand the unique challenges you face every day. And we bring you the power to proactively manage business relationships to drive growth. As a division of NCR, Teradata has a built-in foundation of industry knowledge, consulting

Conducting Business around Detailed Profitability

Prior to implementing Teradata Value Analyzer, RBC, formerly Royal Bank of Canada, conducted customer value analysis using sophisticated methodologies developed at the institution. They used a system of deciles to classify customers according to their calculated value. However, once the bank implemented the Teradata Value Analyzer application, its results were altered drastically. Using Teradata Value Analyzer, subsequent analyses showed that 75% of the bank's clients shifted two or more deciles. Why is this important? Because this information was extremely valuable to the bank as it made decisions about how and where to invest marketing dollars, how to develop new pricing strategies, and how to determine what were the best opportunities and greatest challenges.

expertise, global customer support services, and world-leading hardware technology – a combination of strengths unmatched in the industry, a combination of strengths ready to go to work for you.

For more information about how Teradata Value Analyzer can help you determine the true value of your customers to grow a more profitable business, contact your Teradata representative or visit Teradata.com.

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